



Claire McCaskill

Missouri State Auditor

October 2005

MEDICAID

Controlling Costs For Medical Equipment and Transportation



State could save millions in Medicaid costs by better managing medical equipment and non-emergency medical transportation programs

This audit reviewed the cost-effectiveness and efficiency of two state programs helping Medicaid recipients with medical equipment (Durable Medical Equipment) and transporting recipients to medical appointments (Non-Emergency Medical Transportation). Both programs cost the state about \$100 million from January 2003 through March 2004. The state works with nearly 1,300 providers to distribute medical equipment to recipients, and one contractor to transport recipients to appointments. The following highlights potential savings with better program monitoring.

Bidding equipment contracts could save \$5.4 million	Federal officials showed in Florida and Texas a 17 to 22 percent reduction in equipment costs when these pilot project states competitively bid the equipment contracts. Auditors found Missouri could save \$5.4 million annually with competitive bids. As of May 2005, state officials had not initiated such bidding. (See page 5)
Missouri pays more for medical equipment than other states	Auditors found Missouri paid more than 8 contiguous states on 41 percent of the 1,139 medical equipment devices reviewed. For example, Missouri paid \$2,440 for one prosthetic device, while four other states paid only \$1,830 for the same device, a 25 percent difference. (See page 6)
Medical equipment bought from non-Missouri providers	Despite a state law requiring purchase preference for Missouri products, auditors found \$4.8 million paid to non-Missouri medical equipment providers. Auditors analyzed the out-of-state claims and found Missouri providers offered the same items. (See page 7)
New transportation contract may not have lowered costs	State officials were in the process of rebidding the Non-Emergency Medical Transportation contract when the Commissioner of Administration announced the state's plan to cancel the current contract. Under terms of the contract bid proposal, costs may not have decreased since high program costs from prior years were being used to develop the new contract rates. (See page 9)
Contractor paid millions from poorly monitored program	Auditors found the state paid the Medicaid transportation contractor \$44.1 million over 15 months, with the company realizing at least \$19 million in gross profit. The contractor also received a 87 percent gross profit margin on the mileage reimbursement program. The state contract allowed the contractor to select the method of transportation. (See page 10)
Contractor arranged for most recipients to use high cost taxis	The transportation contractor made more money when it arranged medical transportation through taxis or recipients drove themselves, instead of using the often cheaper option of public transportation. In one example, the contractor received \$2.80 when a recipient used public transportation, but \$34.90 if a recipient used a taxi. In another example, a recipient wanted to drive himself. The contractor reimbursed the recipient 15 cents a mile, or \$3.60 for the trip, then the state paid the contractor \$98.44 for administrative services. (See page 11)

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Missouri State Auditor

Honorable Matt Blunt, Governor
and
Gary Sherman, Director
Department of Social Services
Jefferson City, MO 65102

The Department of Social Services - Division of Medical Services spent about \$100 million on Medicaid Durable Medical Equipment (DME) and Non-Emergency Transportation (NEMT) programs from January 2003 through March 2004. Because of the importance of these programs, we focused review efforts on determining whether these services have been provided in the most cost-effective manner.

We found the division could potentially reduce DME costs by (1) competitively bidding selected DME devices, (2) establishing reimbursement rates similar to other states, and (3) encouraging recipients to use in-state providers for DME services. State officials were in the process of rebidding the NEMT contract when the Commissioner of Administration announced the state's plan to cancel the current contract. Under terms of the contract bid proposal, costs may not have decreased since high program costs from prior years were being used to develop the new contract rates. The proposed rate structure has been used by other states to reduce program costs through increased oversight. However, the division has not always provided adequate oversight of the current NEMT contract. We found Medicaid recipients used taxis to visit providers as the most frequent transportation method of the options available rather than lower cost public transportation services. We have made recommendations to improve the division's oversight of the program.

We conducted our work in accordance with Government Auditing Standards issued by the Comptroller General of the United States. This report was prepared under the direction of Kirk Boyer. Key contributors to this report included John Mollet and Jeff Slinkard.

Claire McCaskill
State Auditor

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Abbreviations

CSR	Code of State Regulations
DME	Durable Medical Equipment
NEMT	Non-Emergency Medical Transportation
RSMo	Missouri Revised Statutes
SAO	State Auditor's Office

Introduction

The Department of Social Services - Division of Medical Services is responsible for administering the state's Medicaid Durable Medical Equipment (DME) and Non-Emergency Transportation (NEMT) programs. DME covers costs for such items as hospital beds, sleep studies, wheelchairs, oxygen and oxygen devices, prosthetics, and orthopedic footwear. NEMT services provide Medicaid recipients free transportation for medically necessary visits to medical providers, such as physicians and dentists. The division reimbursed providers \$55 million for DME services supported by 251,454 claims, and about \$44.1 million for NEMT service supported by 454,287 claims during the 15-month period January 1, 2003 through March 31, 2004. (See Appendix I and III for significant reimbursement categories)

The delivery of DME services is executed through a network of 1,296 registered DME providers throughout Missouri and bordering states. Each provider determines the coverage benefits for an eligible recipient based on his or her type of assistance. All reimbursements are made for items determined by the recipient's treating physician or advanced practice nurse in a collaborative practice arrangement to be medically necessary. The rate of reimbursement is based on the division's defined fee-for-service values. The division has contracted with private consultants and a state contracted fiscal agent to assume the responsibility for evaluating and authorizing the payment of all DME claims.

The delivery of NEMT is executed through a state transportation contractor. The contractor is responsible for maintaining an effective statewide transportation system whereby a centralized logistics operation can arrange and schedule all client medical transportation needs. The contractor sub-contracts with a statewide network of taxi, bus, and ambulance service providers. The contractor is responsible to pre-authorize the trip, schedule the trip and monitor services. Payment for services is made to the contractor based on statewide regional rates authorized and structured by the division. In turn, the contractor reimburses each of the subcontractors for actual transportation services rendered.

Scope and Methodology

To determine the volume and significance of participating providers and reimbursements, we obtained and reviewed all DME and NEMT paid claims from January 1, 2003 through March 31, 2004. We obtained and reviewed appropriate federal and state laws and regulations, the division's DME billing manual, a generic copy of contracts established with DME providers, and the contract with the NEMT transportation contractor. To evaluate the effectiveness of the division's management and oversight of DME and NEMT services and providers, we interviewed knowledgeable division officials and staff. We also obtained and reviewed applicable claim source

documents, transportation logs, and other reports and supporting documents. We compared Missouri's program and structure to Missouri's eight contiguous states – Arkansas, Illinois, Iowa, Kansas, Kentucky, Nebraska, Oklahoma, and Tennessee. We also contacted an official from the Kansas City Area Transportation Authority Share-A-Fare Program to discuss public transportation and that organization's involvement and participation in the NEMT program.

To evaluate DME and NEMT providers registration status, which is required to conduct state business and receive state funding, we traced a random sample of 120 providers to the Secretary of State's registration listing. To evaluate DME provider and program integrity, we reviewed the claim authorization process to determine whether an effective process had been established. We compared the listing of recipients sampled to the division's death records to ensure that the clients were not deceased at the date of the delivery-of-service. We then analyzed the accuracy of sample claim reimbursements by comparing to source documents, verifying medical prescription terms to the unit-of-service, then quantifying the unit-of-service and comparing to the division's on-line DME billing manual. In addition, we evaluated the standard fixed, and variable DME program reimbursement rate structures.

Our audit relies significantly on the division's DME and NEMT reimbursement database. In order to gain assurance as to the accuracy of that data, we performed data validation procedures. We encountered difficulties obtaining a complete NEMT database from the division. The first database was incomplete, the second database duplicated details for one month and was missing one month of audit period data, and the third database included transactions for all months of the audit period, but accumulated the detail in a different format than the second database. We traced a sample of DME and NEMT (second database) claims from the database files to hardcopies to ensure that the claim amounts and detail postings agreed. We determined that the database was sufficiently reliable for the purposes of this report.

We requested comments on a draft of our report from the Director of the Department of Social Services, and those comments are reprinted in Appendix IV. We conducted our work between April 2004 and May 2005.

Potential Exists to Reduce DME Program Costs

Opportunities exist to reduce costs of Missouri's DME program by (1) obtaining competitive bids from contractors to provide selected DME services, and (2) adjusting the rates paid for DME services to match rates paid by surrounding states. In addition, DME program funding has been spent on out-of-state providers resulting in the loss of approximately \$4.8 million in economic benefit to Missouri's economy. The division needs to better educate program recipients and stress the benefit of obtaining DME goods and services from in-state providers whenever possible.

Competitive Bid Contracts Can Offer Lower DME Costs

The division could potentially reduce DME annual program costs by \$5.4 million based on demonstration projects conducted by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid, which showed savings could be achieved through competitive bid contracts. However, the division had not taken action to initiate competitive bid contracts as of May 2005.

The Centers for Medicare and Medicaid conducted projects in Florida and Texas on the feasibility and effectiveness of establishing competitively bid Medicare fees for DME supplies. The projects demonstrated an estimated 17 to 22 percent reduction in Medicare DME program costs could be achieved, with no discernible reductions in beneficiaries' access to DME products or quality of products provided.¹ The 2003 amendments to the Social Security Act require the Centers for Medicare and Medicaid to establish competitively bid DME Medicare fees nationwide beginning in 2007.² In addition, at the time of this review, California and Texas had been evaluating whether to request competitive bids on DME products.³

Division has not initiated competitive bidding

Division officials told us that they have considered competitively bidding and contracting DME providers for goods and services, however, the division had not requested competitive bids for DME services, as of May 2005. Rationale for not requesting competitive bids included:

- Recipients cannot be limited to a restricted number of DME providers. By law, recipients have the discretion and freedom of choice in obtaining delivery of services.

¹ Evaluation of Medicare's Competitive Bidding for DME Purchase of Services, Final Evaluation Report, November 2003.

² The Medicare Prescription, Improvement, and Modernization Act of 2003.

³ The state of California includes negotiated rates for exclusive contracts with drug and equipment manufacturers for DME. California has estimated annual program savings of over \$7 million. This estimate is based on 15 percent savings on items competitively bid.

-
- Reducing the existing statewide network of registered providers would have negative impacts on service delivery.
 - The division does not have sufficient staffing to adequately monitor and provide the necessary oversight of such a statewide contract.

The Social Security Act, however, allows states to request waivers to restrict recipients to selected providers. States in applying for a waiver are required to document and maintain data regarding cost-effectiveness of the project, effect on recipients regarding their access to care and quality of services, and projected impact of the program.

The division could not provide studies or documentation to support its latter two reasons why it has not taken any steps to obtain competitive bids for DME services.

Surrounding states reimburse less for DME

Comparison of Missouri's DME reimbursement rates to the eight contiguous states' rate schedules showed the state frequently paid more for DME services than surrounding states. Our analysis of costs for 1,139 DME items, from the state's fiscal year 2003 fee-for-service rate schedule, showed Missouri's DME rates exceeded the average rates reimbursed by surrounding states⁴ for about 41 percent of these items. In addition, our analysis showed variances up to 25 percent existed among specific DME supply allowances. For example, Missouri had an allowable reimbursement rate of \$2,440 for one prosthetic device, while four of eight states allowed only \$1,830 for the same device, a \$610 or 25 percent difference.

State regulations⁵ authorize the division to determine the structure and reimbursement rates for all DME program benefits. The regulations prescribe that rates be a reasonable fee, consistent with efficiency, economy, and quality of care. Division officials told us the current DME rates are based on deliberation by the department's Budget and Finance section, supported by a sub-committee composed of division staff and industry professionals. The rates are reviewed and adjusted annually with possible interim adjustments subject to available budget funding. Division officials also told us historically, they have typically set the allowable reimbursement rates equivalent to the rates set by Medicare, or at cost plus twenty percent.

⁴ At the time of this audit, fiscal year 2003 represented the most recent published rate data.

⁵ 13 CSR 70-60.010(1) and (3).

DME Funds Paid To Non-Missouri Providers

We found approximately \$4.8 million had been paid to non-Missouri DME providers during the audit period (See Appendix II). Division policy allows Missouri Medicaid recipients to obtain services from bordering state DME providers. As such, Medicaid recipients are not required to justify procurements from out-of-state providers.

Division officials told us states bordering Missouri are viewed the same as Missouri providers. Restrictions of choice cannot be placed upon Medicaid recipients. The Medicaid program allows recipients freedom of choice for delivery of DME goods and services. However, state law⁶ requires purchase preference be given to Missouri products and firms when quality is equal or better and the delivered price is the same or less.

Analysis of reimbursed claims from the audit period showed reimbursements had been made to non-Missouri providers for goods and services that could have been purchased from providers within the state. Examples include; parental nutrition products, diabetic supplies, wheelchair batteries, oxygen refills and equipment.

Conclusions

Missouri's DME providers are reimbursed at comparatively higher rates than many surrounding states' programs. Establishing competitive bid contracts to provide DME goods and services should offer significant cost savings for the program. Other states and federal entities have chosen to explore a competition based type of program structure and have seen savings as high as 17 to 22 percent with no reported adverse effects on recipients to the program. In addition, properly educating and stressing the importance to participants of the program to "buy Missouri" when possible, offers economic benefits not only to the state, but ultimately to the program itself.

Recommendations

We recommend the Director of the Department of Social Services:

- 2.1 Contract for the purchase of selected durable medical equipment (both goods and services) by competitive bid.
- 2.2 Periodically review DME rates used by surrounding states to evaluate Missouri's rates.
- 2.3 Encourage qualifying program recipients to obtain DME from Missouri based providers.

⁶ Sections 34.070 and 34.100, RSMo.

Agency Comments

See Appendix IV for agency comments.

Increased Oversight Needed on NEMT Program to Reduce Costs

State officials were in the process of rebidding the NEMT contract when the Commissioner of Administration announced the state's plan to cancel the current contract; however, program costs may not have decreased under the new contract. This situation has occurred because (1) historically high rates from the current contract have been used to establish a new rate structure, and (2) the division has not ensured recipients always used the lowest cost and most appropriate NEMT. In addition, the division has not ensured all scheduled and reimbursed NEMT trips have been based on a valid medical need.

Contract Proposal May Not Have Resulted in Lower Costs

In June 2005, the Commissioner of Administration announced the state's intention to cancel the statewide NEMT contract. The Commissioner cited cost as the primary reason for canceling the contract.

Under terms of the contract bid proposal at the time of the planned cancellation, NEMT rates were to be based on a flat monthly (capitation) rate, rather than reimbursing claims based on a fee-for-service basis. The new contractor would have been responsible for providing transportation services for recipients based on a fixed monthly rate regardless of the number of trips actually taken. The division used a private consultant to develop potential capitation rates based on 2002, 2003, and 2004 NEMT costs. The capitation rates would have been all inclusive including public transportation services, taxis, wheelchair vans, and mileage reimbursement. The consultant's methodology included projecting historical cost data to the contract period, adjusting for trend and programmatic changes, and includes allowance for administrative as well as referral fees.⁷

The division used historically high cost data to develop capitation rates for the contract bid proposal. This situation has occurred because the division did not adequately monitor NEMT services provided by the contractor, to ensure the lowest cost NEMT services have been used when appropriate, and because of high rates paid to the contractor for mileage reimbursement. See page 10 for additional contract information and the lack of oversight by the division.

Other states have reduced costs using capitation rates

Other states have awarded NEMT contracts using capitation rates. As they have converted to capitation rate reimbursement structures, they have increased monitoring procedures, implemented better recipient education

⁷ A trend factor is necessary to estimate the expense of providing services in a future period. The trend factor(s) will be based on National Indices which include the Consumer Price Index, Producer Price Index, and Data Resource, Incorporated information. Consideration will also be given to trends observed in other NEMT Medicaid programs.

and expanded the availability of public transportation or alternative transportation resources. These changes have reduced the volume of trips and the associated costs. One state reported it evaluated and adjusted capitation rates on a quarterly basis based on actual costs incurred. Missouri's bid proposal did not have similar provisions.

Division Did Not Adequately Monitor Contract

Since 2002, the division did not conduct reviews to determine whether the contractor had been arranging low-cost, and the most appropriate, transportation under the NEMT contract requirements.

That contract required the contractor to arrange for recipients' NEMT services in the following order (1) free transportation sources within the recipients community; (2) public entities (cities/counties) participating in a cooperative agreement with the division; and (3) through direct service providers such as public transit buses, mileage reimbursement for using their own vehicles, volunteers, and taxis. For the latter category, the contract stated when bus transportation is available, it is considered the most appropriate means of transportation.⁸

The contract also required the division to review the types of transportation services arranged by the contractor to ensure the appropriateness of NEMT services provided to recipients.

Contractor provided high profits under contract

Our review of division payments to the contractor disclosed the division paid the contractor about \$44.1 million over a 15-month period. Of that amount, the contractor paid direct service NEMT subcontractors at least \$21.5 million, and realized a gross profit of at least \$19 million during that period. During the same period, the contractor paid recipients at least \$830,645 under the mileage reimbursement program, and had been reimbursed by the division at least \$6.3 million, for a gross profit of at least \$5.4 million (87 percent).⁹

Division officials said although the contractor realized a large profit under the mileage reimbursement program, the contractor incurred losses when recipients had been required to take long distance round trip taxi rides to

⁸ Bus transportation is not considered appropriate under the following circumstances: high risk pregnancy, pregnancy after the 8th month, high risk cardiac conditions, severe breathing problems, extreme weather conditions, more than a three block walk to the bus stop, and the medical provider is not accessible to the bus route.

⁹ Difficulties in obtaining complete NEMT data from the division as discussed in the methodology prevented us from determining the information reported in this paragraph for one month during the audit period. As a result, these amounts are based on the data that was available.

Use of taxi or mileage reimbursement benefited contractor

visit medical providers. We found the contractor did realize some losses on long distance taxi trips. However, our analysis showed the contractor still realized a gross profit of about \$7.5 million (39 percent) on all taxi trips it arranged during the 15-month audit period.

The contractor realized higher gross profit margins by arranging transportation through its network of taxi subcontractors or by encouraging recipients to drive their own vehicles and be reimbursed for mileage, rather than determining if the recipient could take public transportation, as illustrated in the following two examples.

- When a contractor arranged a trip using public transportation system or other free assistance programs, the contractor received a referral fee of \$2.80. If the contractor arranged the trip through a taxi subcontractor, the contractor would have been paid a \$9.30 administrative fee plus a minimum of \$25.60 for the transportation charge, for a total cost to the state of \$34.90.¹⁰
- A contractor determined the recipient wanted to provide his/her own transportation and use the mileage reimbursement program. The recipient traveled 24 miles round trip, and the contractor reimbursed the recipient 15 cents a mile for a total of \$3.60. The state reimbursed the contractor \$98.44 for administrative services.

Division did not ensure validity of all NEMT travel

The division has not ensured all NEMT travel represented valid trips to visit medical providers. This situation has occurred because the division has relied on the contractor to ensure all NEMT trips had been to visit medical providers. However, the division has not conducted any analyses of contractor reported data on claims to determine the validity of those claims.

Our analysis of NEMT paid claims and all Medicaid provider paid claims for a 3-month period showed over 14,500 NEMT claims representing about \$6 million in reimbursements had no corresponding medical claims. Division officials told us the NEMT contract did not require the NEMT client to be taken to a Medicaid provider, therefore there would not be a medical claim in all instances. The officials said services may be to a non-Medicaid provider, if the service is provided free and the services would otherwise be covered by Medicaid.

¹⁰ The highest trip fixed costs could be \$9.30 plus \$82.25, or \$91.55 depending on the region and type of transportation service (based on one-way transportation).

According to a division official, the division relies on the contractor to ensure all NEMT trips had been to visit medical providers. The contractor submits monthly summary reports showing the number of clients and trips taken for medical purposes. According to this official, the division has not conducted any audits or reviews of data submitted by the contractor because of reductions in staff and prior audits did not result in significant findings.

Conclusions

Although the Commissioner of Administration decided to cancel the contract for NEMT services, the costs of NEMT services may not have been reduced by a new contract because (1) historically high rates have been used to establish the new rate structure, (2) the division has not ensured recipients have always used the lowest cost and most appropriate NEMT services, and (3) new contract provisions did not allow adjustments of the capitation rates. The division did not adequately monitor NEMT services under the prior contract and as a result, it did not ensure recipients always used the lowest cost and most appropriate means of transportation. The state's structuring of the prior contract allowed the contractor to achieve high profit margins and allowed the contractor to select the method of transportation which enhanced the profit to the contractor. Closer oversight of contractor operations could have ensured appropriate use of NEMT services and potentially reduced program costs. In addition, the division has not ensured all NEMT travel represented valid Medicaid covered services.

Recommendations

We recommend the Director of the Department of Social Services:

- 3.1 Increase NEMT program monitoring procedures to identify unnecessary or qualifying usage of the program, and stress to recipients the need to use less costly transportation alternatives available to them when possible.
- 3.2 Structure future NEMT contracts to allow for periodic capitation rate cost evaluation and adjustment as necessary.

Agency Comments

See Appendix IV for agency comments.

Significant DME Expenditure Categories

Table I.1 identifies notable DME expenditures by category during the 15-month period ended March 31, 2004.

Table I.1: Notable DME Expenditures by Category

General category	Description	Expenditure amount
Wheelchairs and/or supplies	Motorized and/or manual, supplies, parts	\$15,179,397
Oxygen equipment and supplies	Concentrators, ventilators, compressors, pumps, and oxygen refills	15,096,853
Diabetic supplies	Infusion pump, test/reagent strips, glucose monitor, miscellaneous	5,058,354
Healthy children supplies	Nutrition and antibiotic supplies, miscellaneous	4,500,442
Prosthetics	miscellaneous	2,637,536
Parental nutrition	Miscellaneous. supplies	1,306,430
Hospital beds	Standard, semi-electric	644,360
Incontinence garment	Adult/child diapers	611,292
3-Wheel power operated vehicles	Motorized scooter	542,827
Augmentative communication devices	Communication aide	354,020
Walker	Pickup or wheeled	302,011
Phototherapy	Miscellaneous	159,722
Patient lift - hydraulic	Seat or sling	144,119
Orthopedic footwear	Ladies/mens inlay	112,863
Commode chair	Stationary/fixed	81,264
Bath chair	Stationary/fixed	65,657
Crutches	Other than wood; adjustable or fixed	54,539
Exception and miscellaneous	Miscellaneous supplies	\$1,369,583

Source: SAO analysis of DME paid claims.

Out-of-State DME Procurement

Table II.1 lists DME expenditures to providers in states bordering Missouri during the 15-month period ended March 31, 2004. It also reflects the number of providers paid.

Table II.1: DME Expenditures to Providers in States Bordering Missouri

State	Number of providers	Expenditure amount
Kansas	26	\$3,057,521
Illinois	15	544,353
Arkansas	17	158,148
Nebraska	2	99,845
Oklahoma	2	44,007
Iowa	9	31,731
Tennessee	3	27,883
Unknown	9	878,677
Total		\$4,842,165

Source: SAO analysis of paid claims data.

Significant NEMT Expenditure Categories Summarized

Table III.1 shows NEMT expenditures by categories during the 15-month period ended March 31, 2004.

Table III.1: NEMT Expenditures by Category

General category	Description	Expenditure amount
Taxi service	NEMT taxi service	\$19,878,681
Wheelchair van service	NEMT wheelchair van	10,515,559
Gasoline reimbursement	Individual recipient	6,411,872
Ambulance service	NEMT transportation and miscellaneous	5,295,050
Transportation - mileage	Ground mileage and support	1,956,159
Bus service	NEMT inter-/intra-state carrier system	125,203
Meals - ancillary	NEMT escort transportation	101,803

Source: SAO analysis of NEMT paid claims.

Agency Comments



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July 14, 2005

Jon Halwes, CPA, CGFM
Assistant Director of Performance Audits
Office of the State Auditor
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Dear Mr. Halwes:

Pursuant to your request, enclosed is the Department of Social Services response to your June 22, 2005 draft report titled "Medicaid - Controlling Costs for Medical Equipment and Transportation." As the Director of the Department of Social Services, I am committed to improving the efficiency and effectiveness of the work of our divisions. Under Governor Blunt's leadership, quality improvement efforts are central to strengthening service delivery to citizens of this state.

Rising health care costs and program expansions have more than doubled Medicaid expenditures in just six years. Senate Bill 539 passed during the 93rd General Assembly session established the "Medicaid Reform Commission" to study and review the current Medicaid program and make recommendations for reforms. Recommendations put forth in this report will be reviewed and given consideration as we move forward in reforming the current Medicaid program. One of my goals is to ensure taxpayers that their tax dollars are expended in the most efficient manner. We are committed to taking aggressive action to control spending increases to the Medicaid program.

We have been working hard over the last several months to meet our commitment to enhance the quality of life by improving access to, and the affordability of, quality health care. We take seriously our obligations to the neediest Missouri citizens.

We will continue our review of Medicaid services to determine where efficiencies can be made. Thank you for the opportunity to respond to the draft audit document.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Gary Sherman".

K. Gary Sherman
Director

KGS:jez
Enclosure

"AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER"
services provided on a nondiscriminatory basis

Appendix IV Agency Comments

Department of Social Services Response to Missouri State Auditor Draft Report Medicaid – Controlling Costs for Medical Equipment and Transportation

Potential Exists to Reduce DME Program Costs

Recommendation 2.1: Contract for the purchase of selected durable medical equipment (both goods and services) by competitive bid.

Response: Governor Blunt has demanded that all state agencies are to be persistent in rooting out ineffective practices. The Division of Medical Services (DMS) will evaluate competitively bidding DME goods and services and will pursue this approach if a cost/benefit analysis indicates it is appropriate and cost effective.

Recommendation 2.2: Periodically review DME rates used by surrounding states to evaluate Missouri's rates.

Response: DMS agrees with the recommendation. DMS staff has been working since February 2005 to establish reimbursement rates for DME goods and services currently being manually priced by the state agency's medical consultant. Fee schedules from Medicare, neighboring states, and other states with similar populations to Missouri were used to arrive at a reimbursement price. DMS will continue this same process to review all prices on the DME fee schedule over the next year to determine if the most cost effective rates are in place.

Recommendation 2.3: Encourage qualifying program recipients to obtain DME from Missouri based providers.

Response: DMS agrees with the recommendation. DMS will encourage the use of Missouri based Medicaid providers by Medicaid recipients. Recipients inquiring into the availability of a Medicaid provider shall not be directed to out of state providers if a Missouri based provider is reasonably accessible to the recipient.

Increased Oversight Needed on NEMT Program To Reduce Costs

Recommendation 3.1: Increase NEMT program monitoring procedures to identify unnecessary or qualifying usage of the program, and stress to recipients the need to use less costly transportation alternatives available to them when possible.

Response: DMS agrees with the recommendation. Commissioner of Administration Mike Keathley announced the state's intention to terminate its current contract for Medicaid transportation services to allow the state to explore other service delivery options or new contractual arrangements to provide this service at the best value to the Missouri taxpayer. This contract has been in effect since 2000. The current contract is for the period August 14, 2000 to June 30, 2001. It has been periodically renewed until termination date.

Recommendation 3.2: Structure future NEMT contracts to allow for periodic capitation rate cost evaluation and adjustment as necessary.

Response: If, in the future, transportation services are reimbursed on a capitated rate basis, DMS will establish and maintain actuarially sound capitated rates in a manner consistent with the Centers for Medicare and Medicaid Services (CMS) guidelines.